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## SOCIAL FOCUS OF BUSINESS: THEORETICAL AND PRACTICAL ASPECTS

*The article deals with the reasons for the necessity of social responsibility of business in the conditions of the global economic crisis. The nature and characteristics of social responsibility of enterprises are analyzed, existing theories of social responsibility and its international standards being examined. Social responsibility and social focus of business are defined as the activity which is advantageous for business itself being an effective factor in the success of the manufacturer. The reasons for this are given in the article. The social orientation of the producer and his commitment to the interests of stakeholders (third parties) affect the indicators of capitalization, gross income revenue, profitability, investments and reputation. Taking into account the world's leading experience, a list of public policy measures is proposed that can promote the growth of social activity of Ukrainian producers, including large corporations, in order to overcome inequality and social strain in society.*

**Keywords:** corporate social responsibility, social responsibility theories, stakeholders, social function of business.

*Стаття присвячена з'ясуванню необхідності соціальної відповідальності бізнесу в умовах глобальної економічної кризи. Аналізуються сутність та характерні особливості соціальної відповідальності підприємств, розглядаються існуючі теорії соціальної відповідальності та її міжнародні стандарти. Соціальна відповідальність та спрямованість визначаються як діяльність, що, насамперед, вигідна бізнесу та виступають чинниками успішності виробника. Соціальна спрямованість виробника, його орієнтація на інтереси стейкхолдерів (третіх осіб) впливає на показники капіталізації, валового доходу, рентабельності, інвестицій та репутацію. На основі провідного світового досвіду пропонується перелік заходів державної політики, що сприятиме зростанню соціальної активності українських виробників, у тому числі і великих корпорацій, з метою подолання нерівності та соціальної напруги у суспільстві.*

**Ключові слова:** корпоративна соціальна відповідальність, теорії соціальної відповідальності, стейкхолдери, соціальна функція бізнесу.

*Статья посвящена определению причин необходимости социальной ответственности бизнеса в условиях глобального экономического кризиса. Анализируются сущность и характерные особенности социальной ответственности предприятий, рассматриваются существующие теории социальной ответственности и ее международные стандарты. Социальная*

*ответственность и направленность определяются как деятельность, которая, прежде всего, выгодна бизнесу и выступают действенными факторами успешности производителя. Социальная направленность производителя, его ориентация на интересы стейкхолдеров (третьих лиц) влияет на показатели капитализации, валового дохода, рентабельности, инвестиций и репутацию. На основе ведущего мирового опыта предлагается перечень мер государственной политики, которые могут способствовать росту социальной активности украинских производителей, в том числе и крупных корпораций, с целью преодоления неравенства и социальной напряженности в обществе.*

**Ключевые слова:** корпоративная социальная ответственность, теории социальной ответственности, стейкхолдеры, социальная функция бизнеса.

**Problem statement.** In recent years, it has become a popular practice for business people to declare their commitment to the policy of social responsibility. Such concepts as «social investments», «social justice», «corporate social responsibility» have emerged. But in the real world, in most cases a firm that claims to support such a policy often boils down to charity, considering its mission accomplished. Therefore, the discussion of the problem of social responsibility of business and government, social justice, business ethics and its solution become an important condition for the civilized interaction of all market participants.

**Analysis of current research.** The issues related to evaluation of social programs and efficiency of corporate social responsibility are paid more and more attention within the research carried out by both foreign and domestic scientists. The works by I. Barbashin, S. Buko, S. Ivchenko, P. Kalita, A. Klimenko, V. Paniotto, V. Sadkov, S. Titov, and others should be taken a note of.

**The purpose of the article** was to reveal the nature and characteristics of social responsibility of business and develop an approach to its effective implementation in practice.

**Statement of basic materials.** Discussions about socially responsible behavior of business and government are being held both in developed countries and those being reformed, where the search for one's own economic model inflicts significant social costs. Ukraine is not an exception. However, more recently the concept of social responsibility has been most often used in the context of criticism of modern

business. The market is known to be a socially indifferent system, with the economic entities placing a priority on economic efficiency, not on social norms, while making their decisions.

The latter (social norms) are taken into consideration in so far as they can provide a benefit, or under the pressure of non-economic factors: the state, trade unions, public opinion. Owing to weakness or underdevelopment of these institutions, general macroeconomic instability and priority of short-term goals, the social issues are sidelined.

Significant shadow turnover indicates a partial loss of the state control over the redistribution, and therefore a decrease in the opportunities of social regulation. Over recent years, the IMF has noted the growth of the shadow economy in all countries [5]. The shadow sector in Ukraine in 2016 accounted for about 35% of GDP [6]. One of the reasons that impels the entrepreneur towards such antisocial behavior was the tax pressure on the part of the state, where a significant proportion accounts for social transfers. In the course of reforms, their amount is growing. As a result, the number of unprofitable producers in Ukraine is increasing. In 2015, only 43% of enterprises were making a profit [2].

There are many definitions of social responsibility, but most experts recognize ISO 26000 International Standard of 2010, which reads: «Social responsibility is responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that contributes to sustainable development including health and the welfare of society, takes into account the expectations of stakeholders, is in compliance with applicable law and consistent with international norms of behaviour» [1].

Authorities of many transformational countries used to make attempts to «induce» firms to social responsibility, but these efforts proved unsuccessful. Three basic approaches to the corporate social responsibility are known nowadays: 1) the only goal of the firm is profit increase (corporate egoism theory); 2) charity and social responsibility are satellites of wealth (corporate altruism); 3) increases in profit and social responsibility are inherently linked. H. Ford was among the first to

successfully put the principles of social responsibility of business into practice, having obtained significant economic advantages. In 1914 he announced his \$5-per-day program – a never-before-seen wage for rank and file workers. The program was a runaway success: in a very short period of time the problem of employee turnover (due to tediousness of work on the conveyor belt) was solved, the company received wide public recognition, and, needless to say, the Ford workers had the opportunity to buy the cars manufactured by their own hands.

H. Ford was not prone to charity. In an effort to maximize profit, he realized that his expanding company needed a broader spectrum of solvent customers receiving a high wage. Otherwise, the company will face failure in selling its products. H. Ford saw millions of workers, farmers, white-collars among his potential buyers. Of course, he did not perceive that the trade-unions fuelled by his \$5-per-day program would later achieve a five-dollar rate throughout the country and ordinary people would buy his car. Ford believed his intuition and he achieved success. A matter of wages is more important for an entrepreneur than for a worker. Low wages will harm an enterprise much faster, than a worker [4].

Many modern Western businessmen follow in his footsteps and among large corporations the number of active participants in social activities is increasing. Nowadays the systems of regulating corporate social responsibility are constantly improving, responding to the challenges of time. For instance, observing social and economic justice in Germany is a traditional trend for business. Companies invest in protecting environment, minimizing social imbalances and assisting cultural and educational institutions. In the near-term outlook such initiatives are of beneficent nature and in the long-term outlook they cover the expenses through increase in demand for a company's products, corporate image reinforcement and, on the whole, contribute to the national economic development.

The reasons encouraging Western firms to implement ideas of corporate social responsibility include the following:

- increasing pressure of a state in the form of strict standards of labor legislation and environmental protection;
- pressure of trade unions;
- advanced relationship between public opinion and sales level. Public attitudes towards the brand is being determined by corporate image, behavior of a firm towards its partners, employees, environment, society;
- dependence of capitalization and reputation on social orientation of a firm.

According to estimates of Harvard Business School, companies that use social programs are ahead of firms without such programs by every measure. By return on assets, capital invested in good corporate citizens in 1993 had brought an increase in assets with a coefficient of 7.1 by 2010, while the measure of a company without a social program was only 4. Gross revenues of good corporate citizens in the long-term outlook-turned out to be 5-10% higher than those of competitors, and a level of labor productivity exceeded the index of socially inactive companies by 37.9%. Therefore, social responsibility is a powerful factor of corporate development [3, p. 198].

Consequently, a close relationship between corporate social responsibility, government and a citizen is evident, and also the necessity of a comprehensive systematic study of this issue is clear. The scope of an article enables to consider only some aspects in economic studies of this problem. There are two levels of corporate social responsibility: obligatory responsibility and voluntary one. Voluntary responsibility implies corporate participation in any socially significant projects that do not directly concern the sphere of its activity. Mandatory corporate responsibility presupposes accountability for the consequences of company's decisions and actions. Government cannot enforce a company to implement obligatory social responsibility, but can create both conditions and prerequisites for accomplishment of voluntary responsibility.

In Ukraine, theory of corporate social responsibility has gained traction as purely theoretical approach. Practically Ukrainian workers receive low wages,

programmes of social security are ineffective, and there are problems in a sphere of occupational safety. Also from 2000 till 2014 the share of professionals in a structure of employed workers decreased while the fractions of managers, trade personnel, workers of unskilled labor went up [3, p. 194]. In Ukraine corporate social responsibility is in its infancy. Domestic entrepreneurs, focusing exclusively on current profits, personally foredoom their business to failure. Therefore, development of a company should be considered through the lens of its social responsibility, and social transformations are possible only due to joint efforts of business and government.

**Conclusions.** Using leading international practices, regulation of corporate social responsibility may be directed to the following areas:

- encouragement of good corporate citizens involved in development of social services, waste conversion, energy saving, production of goods using recyclable materials by tax incentives;
- legislative definition of company's expenditures on social needs, which will ensure a balance of both government and non-governmental financial sources of social services;
- development of the programmes of mass implementation of public-private partnership in the areas of public transport and infrastructure, environmental protection, housing and communal services, healthcare, education, etc.;
- regulation of social and labour relations (standards of labour remuneration and labour protection, granting leave, employees' insurance, employers' liability for violation of labor legislation and compensation for health damage of an employee) [1];
- encouragement of companies to participate in enhancing employment and creating new jobs by employing retired and disabled people;
- introduction of property taxes and luxury taxes to reduce income inequality of population.

Educational outreach activity involving the media also should promote practices of voluntary social responsibility.

**Directions for future research.** Economic entities are bearers of economic culture, age-old traditions of business relations, national economic way of thinking. Taking into account national set of mind and traditions can be effective in finding the right combination between public regulation and self-regulation within corporate structures, which will narrow a field of «shadow law» in solving social problems.

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